



A REPORT
TO THE
MONTANA
LEGISLATURE

FINANCIAL-COMPLIANCE AUDIT

Judicial Branch

*For the Two Fiscal Years Ended
June 30, 2018*

APRIL 2019

LEGISLATIVE AUDIT
DIVISION

LEGISLATIVE AUDIT COMMITTEE**REPRESENTATIVES**

KIM ABBOTT

Kim.Abbott@mtleg.gov

DAN BARTEL

Danbartel2@gmail.com

TOM BURNETT, VICE CHAIR

Burnett.tom@gmail.com

DENISE HAYMAN

Denise.Hayman@mtleg.gov

EMMA KERR-CARPENTER

KC@mtleg.gov

MATT REGIER

Matt.Regier@mtleg.gov**SENATORS**

DEE BROWN

senatordee@yahoo.com

TERRY GAUTHIER

Mrmac570@me.com

BOB KEENAN

Bob.Keenan@mtleg.gov

MARGARET MACDONALD

Margie MacDonald@mtleg.gov

MARY McNALLY, CHAIR

McNally4MTLeg@gmail.com

GENE VUCKOVICH

Gene.Vuckovich@mtleg.gov

MEMBERS SERVE UNTIL A MEMBER'S LEGISLATIVE TERM OF OFFICE ENDS OR UNTIL A SUCCESSOR IS APPOINTED, WHICHEVER OCCURS FIRST.

§5-13-202(2), MCA

FRAUD HOTLINE

(STATEWIDE)

1-800-222-4446

(IN HELENA)

444-4446

LADHotline@mt.gov.**FINANCIAL-COMPLIANCE AUDITS**

Financial-compliance audits are conducted by the Legislative Audit Division to determine if an agency's financial operations are properly conducted, the financial reports are presented fairly, and the agency has complied with applicable laws and regulations. In performing the audit work, the audit staff uses standards set forth by the American Institute of Certified Public Accountants and the United States Government Accountability Office. Financial-compliance audit staff members hold degrees with an emphasis in accounting. Most staff members hold Certified Public Accountant (CPA) certificates.

The Single Audit Act Amendments of 1996 and the Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards require the auditor to issue certain financial, internal control, and compliance reports in addition to those reports required by *Government Auditing Standards*. This individual agency audit report is not intended to comply with these reporting requirements and is therefore not intended for distribution to federal grantor agencies. The Legislative Audit Division issues a statewide biennial Single Audit Report which complies with the above reporting requirements. The Single Audit Report for the two fiscal years ended June 30, 2017, was issued March 23, 2018. The Single Audit Report for the two fiscal years ended June 30, 2019, will be issued by March 31, 2020.

AUDIT STAFF

JENNIFER ERDAHL
JILL MORASKONATALIE H. GIBSON
MARY V. YUREWITCH

Reports can be found in electronic format at:
<https://leg.mt.gov/lad/audit-reports>

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

April 2019

The Legislative Audit Committee
of the Montana State Legislature:

This is our financial-compliance audit report on the Judicial Branch for the two fiscal years ended June 30, 2018. Included in this report is one recommendation related to compliance with state law. The report also includes a disclosure issue related to inter-entity loans for the legislature's consideration.

During the audit, we focused on expenditures for personal services and other operating expenditures, benefits to individuals, federal revenues, and charges for services. We also tested compliance with state laws and policies and reviewed the relationship with the State Bar to determine if a component unit relationship exists with the state.

The branch's written response to the audit recommendation is on page C-1. We thank the Chief Justice, the Court Administrator, and branch staff for their cooperation and assistance throughout the audit.

Respectfully submitted,

/s/ Angus Maciver

Angus Maciver
Legislative Auditor

TABLE OF CONTENTS

Figures and Tables.....	ii
Elected and Appointed Officials	iii
Report Summary	S-1
 CHAPTER I – INTRODUCTION.....	 1
Audit Objectives.....	1
Background.....	1
State Bar	3
Prior Audit Recommendation	3
 CHAPTER II – FINDINGS AND RECOMMENDATIONS.....	 5
Working Interdisciplinary Network of Guardianship Stakeholders.....	5
 DISCLOSURE ISSUE.....	 7
Inter-Entity Loan	7
 INDEPENDENT AUDITOR’S REPORT AND BRANCH FINANCIAL SCHEDULES	
Independent Auditor’s Report	A-1
Schedule of Changes in Fund Equity & Property Held in Trust for the Fiscal Year Ended June 30, 2018.....	A-4
Schedule of Changes in Fund Equity & Property Held in Trust for the Fiscal Year Ended June 30, 2017.....	A-5
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2018.....	A-6
Schedule of Total Revenues & Transfers-In for the Fiscal Year Ended June 30, 2017.....	A-7
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2018.....	A-8
Schedule of Total Expenditures & Transfers-Out for the Fiscal Year Ended June 30, 2017.....	A-9
Notes to the Financial Schedules	A-11
 REPORT ON INTERNAL CONTROL AND COMPLIANCE	
Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Schedules Performed in Accordance with <i>Government Auditing Standards</i>	B-1
 BRANCH RESPONSE	
Judicial Branch	C-1

FIGURES AND TABLES

Tables

Table 1	Fund Balance Classifications.....	8
---------	-----------------------------------	---

ELECTED AND APPOINTED OFFICIALS

			<u>Term Expires</u>
Supreme Court	Mike McGrath	Chief Justice	2024
	Elizabeth Baker	Justice	2026
	Ingrid Gustafson	Justice	2022
	Laurie McKinnon	Justice	2020
	James A. Rice, Jr.	Justice	2022
	Dirk Sandefur	Justice	2024
	James Jeremiah Shea	Justice	2020

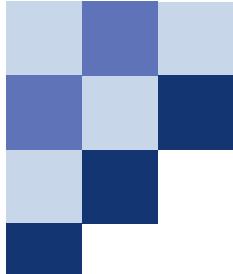
Clerk of Supreme Court Ed Smith, through December 31, 2018

Bowen Greenwood, as of January 1, 2019

Appointed Officials Beth McLaughlin, Court Administrator
Sarah McClain, State Law Librarian

For additional information concerning the Judicial Branch, contact:

Beth McLaughlin, Court Administrator
Montana Supreme Court
P.O. Box 203002
Helena, MT 59620-3002
(406) 841-2957
e-mail: bmclaughlin@mt.gov



MONTANA LEGISLATIVE AUDIT DIVISION

FINANCIAL-COMPLIANCE AUDIT Judicial Branch

For the Two Fiscal Years Ended June 30, 2018

APRIL 2019

18-27

REPORT SUMMARY

In fiscal year 2018, the Judicial Branch began receiving the \$10 surcharge imposed on each convicted criminal and collected by the counties. The surcharge provides funding for court appointed special advocates (CASA). Previously, the surcharge was collected by the Department of Justice and provided funding for the Montana Law Enforcement Academy. During the year, the Judicial Branch collected and expended approximately \$770,000 in the newly established CASA state special revenue fund.

Context

The judicial power of the state is vested in the Supreme Court; district courts in the 22 judicial districts; the Workers' Compensation Court; the Water Court; courts of limited jurisdiction; and any other courts established by law.

Judicial Branch (branch) operations include the Supreme Court, Clerk of the Supreme Court, the Water Court, district courts, the State Law Library, and the computer technology support of all courts, including those of limited jurisdiction. Branch activities include district court expenses for district court judges, staff, and youth probation officers; the Supreme Court's Justices, Court Administrator's Office, and Clerk of the Supreme Court; the Law Library; and Water Courts.

The branch is overseen by the Supreme Court and administered by the Court Administrator's Office. District courts' jurisdiction includes criminal, tort, contract, and property rights as well as domestic relations, mental health, estate, civil appeals, and other miscellaneous civil cases.

The water courts' activities are limited to adjudication of existing water rights. The Law Library provides reference services to the public.

Results

Our audit work included analyzing the financial schedules, examining the underlying financial activity, and reviewing and testing selected control systems. We issued an unmodified opinion on the branch's financial schedules which means that the information presented within them can be relied upon. We also reviewed the relationship with the State Bar to determine if a component unit relationship exists with the state. We determined the State Bar is not a component unit.

There was one prior audit recommendation related to the collection of the attorney license tax. This recommendation has been partially implemented as described on page 3. This report contains one recommendation related

to new legislation requiring a Working Interdisciplinary Network of Guardianship Stakeholders program.

In addition to the recommendation, we disclose an instance where a loan was made from one state special revenue fund to another where the fund equity was committed. State law uses the term unrestricted money which does not align with fund balance designations per Generally Accepted Accounting Principles.

Recommendation Concurrence	
Concur	0
Partially Concur	1
Do Not Concur	0

Source: Agency audit response included in final report.

For a complete copy of the report (18-27) or for further information, contact the Legislative Audit Division at 406-444-3122; e-mail to lad@mt.gov; or check the web site at <https://leg.mt.gov/lad/audit-reports>
 Report Fraud, Waste, and Abuse to the Legislative Auditor's FRAUD HOTLINE
 Call toll-free 1-800-222-4446, or e-mail LADHotline@mt.gov.

Chapter I – Introduction

Audit Objectives

We performed a financial compliance audit of the Judicial Branch (branch) for the two fiscal years ended June 30, 2018. The objectives of our audit were to:

1. Determine whether the branch's financial schedules present fairly the results of operations and changes in fund equity and property held in trust for each of the fiscal years ended June 30, 2018, and 2017.
2. Obtain an understanding of the branch's controls systems to the extent necessary to support our audit of the branch's financial schedules and, if appropriate, make recommendations for improvement in management and internal controls of the branch.
3. Determine whether the branch complied with selected state and federal laws and regulations.
4. Determine the implementation status of the prior audit recommendation.

We addressed these objectives by focusing our audit work on activity related to expenditures for personal services and other operating expenditures, benefits to individuals, federal revenues, and charges for services. We also tested compliance with state laws and policies.

Background

The Constitution of the state of Montana establishes the Judicial Branch and vests the judicial power of the state in one Supreme Court, district courts, justice courts, and such other courts as may be provided by law. In statute, the legislature has exercised its constitutional powers to further define the judicial function, usually referring to the judicial function as the Judicial Branch. The Supreme Court, which consists of a Chief Justice and six justices, has appellate jurisdiction and limited original jurisdiction. The Chief Justice is the head of the Supreme Court. The Court Administrator, appointed by the Supreme Court, serves as its administrative officer. The Supreme Court also appoints the Law Librarian. The librarian develops and maintains the Law Library collection and administers library services.

The Supreme Court has general supervisory control over all other courts and may make rules governing appellate procedures, practice and procedure for all other courts, admission to the bar, and conduct of practicing attorneys. The rules of appellate procedure are subject to disapproval by the legislature in either of the two legislative sessions following promulgation.

Supreme Court justices and district court judges are elected to office in nonpartisan elections and serve eight-year and six-year terms, respectively. Terms of office and the procedure for filling vacancies in the courts are established in the Constitution and by statute. The legislature establishes the judicial districts and provides for the number of judges in each district. Currently, there are 46 district court judges in 22 judicial districts.

The Clerk of Supreme Court is elected to a six-year term on a partisan ballot in a statewide election. In accordance with §3-2-402, MCA, the clerk keeps the Supreme Court's records and files, performs functions relating to issuing writs and certificates, approves bonds, files all paper and transcripts, and performs other duties as required by the Supreme Court.

For fiscal management purposes, the branch is divided into five programs. The branch is authorized a full-time equivalent (FTE) staff level of 438.58 for fiscal year 2018. A description of each program follows:

Supreme Court Operations (85.25 FTE) accounts for the costs of operation of the Supreme Court and Office of Court Administrator (office). The office provides services to the branch including information technology, budget and finance, payroll and human resource management, policy and technical support for the youth courts, judicial education, children's services provided through the federally funded Court Assessment Program, and drug treatment court expenses supported by the General Fund and fee revenue. The office also provides information technology services to courts of limited jurisdiction, which are not part of branch operations.

This program includes the administration of juvenile placement funds which are allocated to each judicial district. At the end of each fiscal year, any unobligated and unspent funds from the district are transferred to the Youth Court Intervention and Prevention account per §41-5-130(6), MCA. Once transferred, the funds are part of District Court Operations.

Law Library (6.75 FTE) accounts for the operation of the State Law Library. The branch maintains the library for the use by the Supreme Court, the legislature, state officers and employees, members of the bar, and the general public.

District Court Operations (316.58 FTE) accounts for the payment of salaries, travel, training expenses, and operating costs for district court judges, their staff, and youth probation officers. It also includes drug treatment court expenses funded by federal grants and private donations, and certain adult criminal, child abuse, and child neglect

case expenses. The surcharge funding for court appointed special advocates in fiscal 2018 is also part of this program.

Water Courts Supervision (24.50 FTE) accounts for expenditures of the water courts. Montana's water courts were created to adjudicate claims of existing water rights in Montana and supervise the distribution of water within the four water divisions of the state.

Clerk of Court (5.50 FTE) accounts for the costs of operation of the Clerk of Supreme Court. Duties of the clerk include keeping the Supreme Court's records and files, making transcripts for the Supreme Courts, and filing papers or transcripts required by law.

State Bar

The State Bar (bar) was created on January 29, 1974, by the Montana Supreme Court to aid the courts in improving the quality of the legal profession in Montana and to ensure that the responsibilities of the legal profession to the public are more effectively administered. Given the creation of the State Bar by the Supreme Court and the contract the Supreme Court has with the bar to collect the attorney license tax, we reviewed the relationship to determine if the State Bar is a component unit whose financial activity should be included in the State of Montana financial reports. Generally Accepted Accounting Principles define component units as legally separate organizations for which the primary government is financially accountable. Based on our review, the bar is a separate legal entity and the Supreme Court does not have the ability to exercise control over the bar. Additionally, there is no financial benefit or burden to the Supreme Court in relation to the State Bar. As such, we concluded the State Bar is not a component unit of the state of Montana.

Prior Audit Recommendation

The prior audit report contained one recommendation related to the timely deposit of the attorney license tax and contracting with the State Bar in compliance with state law and administrative rule. The Branch implemented the portion of the recommendation related to the contract with the State Bar by updating their contract in accordance with contracting law.

In our review of the timeliness of deposits for the attorney license tax, we noted not all deposits were in accordance with state law for the entire audit period. We reviewed 107 deposits in fiscal years 2017 and 2018. State law requires at least weekly deposits and daily deposits when there is more than \$750. In our review, we found 32 instances of noncompliance with the daily deposit requirement and 17 instances of noncompliance

with the weekly deposit requirement. Approximately half of the noncompliance with the daily requirement was related to an illness of the State Bar worker who handles the deposits. The branch implemented procedures to follow up with the State Bar when deposits are not timely. Because the branch has implemented follow up procedures and much of the noncompliance in the most recent fiscal year was related to an isolated incident, this recommendation is considered partially implemented and we make no further recommendation at this time.

Chapter II – Findings and Recommendations

Working Interdisciplinary Network of Guardianship Stakeholders

The branch did not create a Working Interdisciplinary Network of Guardianship Stakeholders as required by state law.

Chapter 241, Laws of 2017 Regular Session created a working interdisciplinary network (WINGS), effective July 1, 2017. This is codified at §§3-1-710 through 3-1-712, MCA. These state laws establish the number and qualifications of members for the network, who are appointed by the Chief Justice, and frequency of meetings. WINGS is charged with proposing methods of training guardians and recommending or conducting outreach, education, and training needs, among other things. Under §3-1-712, MCA, the branch is required to make grants to organizations that provide guardianship services to indigent individuals for whom a guardian is not otherwise available. The purpose of the grants is to provide training and guidance to family members serving as guardians, public defenders and district court judges who are handling guardianship cases, and volunteer guardians of indigent individuals who are unable to pay for guardianship services. These laws are currently set to terminate June 30, 2023.

The branch was appropriated \$80,000 as part of Chapter 241, Laws of 2017 Regular Session to implement WINGS in fiscal year 2018 and \$120,000 to award grants starting in fiscal year 2019. Even though the WINGS program was signed into law in May 2017 with an effective date of July 1, 2017, the department had not established a network by November 2017 when the special session occurred. As part of the November 2017 Special Session, the branch volunteered the WINGS funding for their budget reduction and opted to not move forward with the program citing it was not prudent to start a new program in the current fiscal climate. While this budget reduction was accepted, the legislature's budget staff entered the reductions on the state's accounting system to the law library budget rather than the WINGS program. This left the WINGS program fully funded for the biennium.

Because the law was effective four months prior to the special session, the state's accounting records reflect the program was fully funded for the entire audit period, and the special session did not change the requirements in law, the branch should have complied with law. The Judicial Branch has proposed legislation during the 2019 Legislative Session to remove the grant requirements and amend other portions of the law so that the program is elective rather than required. However, this does not

change the requirements in effect during the audit period. As a result of the branch's nonfeasance, appointed guardians, public defenders, and court judges are not receiving training under this program to help ensure indigent individuals receive appropriate services. As required by §5-13-304(5), MCA, we have communicated this nonfeasance to the Governor.

RECOMMENDATION #1

We recommend the Judicial Branch comply with state law by:

- A. *Appointing the network of guardianship stakeholders per §3-1-710, MCA.*
 - B. *Awarding grants for public guardianship programs according to §3-1-712, MCA.*
-

Disclosure Issue

The Montana Legislature is tasked with authorizing the expenditure of public money, designating the sources from which money may be collected, shaping the administration to perform the work of state government, and is held accountable for fiscal policy. As such, it is vital we disclose relevant information discovered during our audits of state agencies, even if recommendations do not result from the work, to enable the legislature to fulfill its responsibilities. The following section outlines a matter we observed during the audit we believe warrants the attention of the legislature.

Inter-Entity Loan

Section 17-2-107(2), MCA, originally enacted in 1971, allows for a temporary loan from “unrestricted money” if it can be repaid in one calendar year and is recorded on the state accounting records. State policy requires that these inter-entity loans must first be taken from the agency’s own unrestricted funds, when administratively feasible, prior to requesting a loan from the General Fund.

During fiscal year 2018, the Judicial Branch (branch) was authorized to make a \$400,000 inter-entity loan from the Youth Court Intervention & Prevention Account to the Court Appointed Special Advocate (CASA) Account as a prerequisite to processing a budget amendment for a legislative funding change. Both accounts reside in the State Special Revenue Fund, where money is earmarked for the purpose of defraying particular costs of an agency, program or function of state government, and money whose use is restricted by law or the terms of an agreement, such as a contract, trust agreement or donation.

During the audit, we questioned the appropriateness of loaning funds from the Youth Court Intervention & Prevention Account because state law places constraints on the use of the funds in the account. Branch personnel consulted with the Department of Administration (department), whose personnel are responsible for approving inter-entity loans. Department personnel indicated that state law does not define unrestricted funds and state policy directs agencies to make loans from their own funds, when administratively feasible, prior to requesting a General Fund loan.

Generally Accepted Accounting Principles (GAAP) require fund balance, in the state special revenue fund, to be classified according to the constraints placed on the use of the funds. State accounting policy implemented the GAAP required classifications in fiscal year 2010. Prior to fiscal year 2010, available funds were simply classified as net

assets. The GAAP constraints, from most restrictive to least, are summarized in the table below.

Table 1
Fund Balance Classifications

Classification	Classification Definition
Nonspendable	Includes amounts that cannot be spent because they are not in spendable form or are legally or contractually required to be maintained intact.
Restricted	Includes amounts that are restricted for particular purposes. The constraints placed on the moneys are: <ul style="list-style-type: none"> • Externally imposed by creditors, grantors, contributors, or laws or regulations of other governments • Imposed by law through constitutional provision or enabling legislation.
Committed	Includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the government's highest level of decision-making authority.
Assigned	Includes amounts that are constrained by the government's intent to use the funds for specific purposes.
Unassigned	Includes amounts not meeting the definition of nonspendable, restricted, committed or assigned. The General Fund is the only fund that should report a positive unassigned fund balance.

Source: Compiled by the Legislative Audit Division from Governmental Accounting Standards Board's Codification of Governmental Accounting and Financial Reporting Standards.

The available funds in the Youth Court Intervention & Prevention state special revenue account are classified as committed because the constraints on spending are internally imposed via state law and can be amended by the legislature. State law currently constrains this account to use for juvenile parole out-of-home placements, programs, and services costs.

“Unrestricted money” as used in state law, is not defined in Montana Code. Unrestricted generally is defined in the dictionary as not having limits or not subject to restriction. The classification above that most closely aligns with this definition is unassigned. The General Fund is the only fund that would have cash available to lend in the unassigned classification. Hence, in aligning current state law with state policy, all loans would come from the General Fund resulting in lost interest earnings to the General Fund. Without a clear definition of “unrestricted money” in state law, it is unclear if fund classifications in GAAP, such as committed, would be considered unrestricted money from which a loan could be given.

The \$400,000 loan taken out in fiscal year 2018 was repaid prior to fiscal year-end which ultimately results in the money being available to be spent in the Youth

Intervention and Prevention Account as the legislature intended. However, without a definition of unrestricted money in state law it is not clear if funds with available cash, but a committed fund balance could be lent to other funds. During the time the funds are on loan they could be temporarily used for a purpose other than what state law governing the loaning fund allows.

While we have concerns about the source of funding used to make the loan, the Youth Court Intervention and Prevention Account did have cash available to make a loan. Since the loan was repaid to allow for funds to be spent for the intended purpose and state law does not align with generally accepted accounting principles language, we make no recommendation at this time.

As of June 30, 2018, there were approximately 30 other funds within state government with committed fund balances used for inter-entity loans. As such, in addition to this disclosure, we are referring this issue to the next Department of Administration audit. The department is responsible for establishing state accounting policy related to inter-entity loans as well as authorizing inter-entity loans in compliance with §17-2-107(2), MCA. The next audit of the department will cover fiscal years 2019 and 2020 and is expected to be issued in the fall of 2020.

Independent Auditor's Report and Branch Financial Schedules

LEGISLATIVE AUDIT DIVISION

Angus Maciver, Legislative Auditor
 Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
 Cindy Jorgenson
 Joe Murray

INDEPENDENT AUDITOR'S REPORT

The Legislative Audit Committee
 of the Montana State Legislature:

Introduction

We have audited the accompanying Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Judicial Branch for each of the fiscal years ended June 30, 2018, and 2017, and the related notes to the financial schedules.

Management's Responsibility for the Financial Schedules

Management is responsible for the preparation and fair presentation of these financial schedules in accordance with the regulatory format prescribed by the Legislative Audit Committee, based on the transactions posted to the state's accounting system without adjustment; this responsibility includes recording transactions in accordance with state accounting policy; and designing, implementing, and maintaining internal controls relevant to the preparation and fair presentation of the financial schedules that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial schedules based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial schedules are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial schedules. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial schedules, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the Judicial Branch's preparation and fair presentation of the financial schedules in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Judicial Branch's internal control, and accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness

of significant accounting estimates made by management, as well as the overall presentation of the financial schedules.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles

As described in Note 1, the financial schedules are prepared from the transactions posted to the state's primary accounting system without adjustment, in the regulatory format prescribed by the Legislative Audit Committee. This is a basis of accounting other than accounting principles generally accepted in the United States of America. The financial schedules are not intended to, and do not, report assets, liabilities, and cash flows.

The effects on the financial schedules of the variances between the regulatory basis of accounting described in Note 1 and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinions on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the "Basis for Adverse Opinions on U.S. Generally Accepted Accounting Principles" paragraph, the financial schedules referred to above do not present fairly, in accordance with accounting principles generally accepted in the United States of America, the financial position of the Judicial Branch as of June 30, 2018, and June 30, 2017, or changes in financial position or cash flows for the years then ended.

Unmodified Opinions on Regulatory Basis of Accounting

In our opinion, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out, presents fairly, in all material respects, the results of operations and changes in fund equity and property held in trust of the Judicial Branch for each of the fiscal years ended June 30, 2018, and 2017, in conformity with the basis of accounting described in Note 1.

Emphasis of Matter

As discussed in Note 5 to the financial schedules, the Judicial Branch began collecting a surcharge fee in fiscal year 2018 as a result of a change in statutory requirements. The surcharge is recorded as charges for services in the state special revenue fund on the Schedules of Revenues & Transfers-In. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2019, on our consideration of the Judicial Branch's internal control over financial reporting and on our

tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Judicial Branch's internal control over financial reporting and compliance.

Respectfully submitted,

/s/ Cindy Jorgenson

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 1, 2019

JUDICIARY
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Agency Fund
FUND EQUITY: July 1, 2017	\$ (2,783,182)	7,429,256	(1,994)	891,838	28,334	0
PROPERTY HELD IN TRUST: July 1, 2017						6,919
 ADDITIONS						
Budgeted Revenues & Transfers-In	196,841	5,135,062	1,851,228		218,926	
Nonbudgeted Revenues & Transfers-In	359	37,047				
Prior Year Revenues & Transfers-In Adjustments	583	(1,795)				
Direct Entries to Fund Equity	44,338,290	1,063,433	(6)			
Additions to Property Held in Trust						261,120
Total Additions	44,536,073	6,233,747	1,851,221	0	218,926	261,120
 REDUCTIONS						
Budgeted Expenditures & Transfers-Out	44,357,487	5,634,557	1,849,228	299,804	214,927	
Nonbudgeted Expenditures & Transfers-Out		22,249				
Prior Year Expenditures & Transfers-Out Adjustments	10,943	4,035				
Reductions in Property Held in Trust						260,823
Total Reductions	44,368,430	5,660,841	1,849,228	299,804	214,927	260,823
 FUND EQUITY: June 30, 2018	\$ (2,615,540)	\$ 8,002,163	\$ 0	\$ 592,034	\$ 32,332	\$ 0
PROPERTY HELD IN TRUST: June 30, 2018						\$ 7,216

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIARY
SCHEDULE OF CHANGES IN FUND EQUITY & PROPERTY HELD IN TRUST
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Capital Projects Fund	Enterprise Fund	Agency Fund
FUND EQUITY: July 1, 2016	\$ <u>(2,406,436)</u>	\$ <u>6,809,615</u>	\$ <u>0</u>	\$ <u>1,238,041</u>	\$ <u>17,000</u>	\$ <u>0</u>
PROPERTY HELD IN TRUST: July 1, 2016						\$ <u>2,061</u>
 ADDITIONS						
Budgeted Revenues & Transfers-In	201,423	4,278,755	1,853,483		220,122	
Nonbudgeted Revenues & Transfers-In	2,378	5,474				
Prior Year Revenues & Transfers-In Adjustments	200	(7,899)				
Direct Entries to Fund Equity	47,036,299	1,338,007				
Additions to Property Held in Trust						287,918
Total Additions	<u>47,240,300</u>	<u>5,614,337</u>	<u>1,853,483</u>	<u>0</u>	<u>220,122</u>	<u>287,918</u>
 REDUCTIONS						
Budgeted Expenditures & Transfers-Out	47,597,487	4,988,881	1,855,477	346,203	208,789	
Nonbudgeted Expenditures & Transfers-Out		2,212				
Prior Year Expenditures & Transfers-Out Adjustments	19,559	3,603				
Reductions in Property Held in Trust						283,061
Total Reductions	<u>47,617,046</u>	<u>4,994,696</u>	<u>1,855,477</u>	<u>346,203</u>	<u>208,789</u>	<u>283,061</u>
 FUND EQUITY: June 30, 2017	\$ <u>(2,783,182)</u>	\$ <u>7,429,256</u>	\$ <u>(1,994)</u>	\$ <u>891,838</u>	\$ <u>28,334</u>	\$ <u>0</u>
PROPERTY HELD IN TRUST: June 30, 2017						\$ <u>6,919</u>

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIARY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Licenses and Permits	\$ 126,550	\$ 667	\$ 1,255,131	\$ 218,926	\$ 126,550
Taxes					667
Charges for Services	30,435				1,504,492
Monetary Settlements	7,324				7,324
Grants, Contracts, and Donations		50,863			50,863
Transfers-in		3,829,428	379,031		4,208,460
Federal Indirect Cost Recoveries	32,807				32,807
Miscellaneous		34,892			34,892
Federal			1,472,196		1,472,196
Total Revenues & Transfers-In	197,783	5,170,314	1,851,228	218,926	7,438,250
Less: Nonbudgeted Revenues & Transfers-In	359	37,047			37,406
Prior Year Revenues & Transfers-In Adjustments	583	(1,795)			(1,212)
Actual Budgeted Revenues & Transfers-In	196,841	5,135,062	1,851,228	218,926	7,402,056
Estimated Revenues & Transfers-In	168,050	4,555,088	1,853,168	245,000	6,821,306
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 28,791	\$ 579,973	\$ (1,940)	\$ (26,074)	\$ 580,750
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Licenses and Permits	\$ 775	\$ 583,815		\$ (26,074)	\$ 775
Charges for Services	(7,515)				550,227
Monetary Settlements	2,724				2,724
Grants, Contracts, and Donations		(3,842)			(3,842)
Transfers-in			(1,940)		(1,940)
Federal Indirect Cost Recoveries	32,807				32,807
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ 28,791	\$ 579,973	\$ (1,940)	\$ (26,074)	\$ 580,750

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIARY
SCHEDULE OF TOTAL REVENUES & TRANSFERS-IN
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	General Fund	State Special Revenue Fund	Federal Special Revenue Fund	Enterprise Fund	Total
TOTAL REVENUES & TRANSFERS-IN BY CLASS					
Licenses and Permits	\$ 125,575				\$ 125,575
Taxes	757				757
Charges for Services	38,128	\$ 558,732		\$ 220,122	816,982
Monetary Settlements	4,631				4,631
Grants, Contracts, and Donations		64,738			64,738
Transfers-in	435	3,649,031	\$ 740,548		4,390,014
Federal Indirect Cost Recoveries	33,289				33,289
Miscellaneous	1,185	3,829			5,015
Federal			1,112,935		1,112,935
Total Revenues & Transfers-In	204,001	4,276,331	1,853,483	220,122	6,553,937
Less: Nonbudgeted Revenues & Transfers-In	2,378	5,474			7,852
Prior Year Revenues & Transfers-In Adjustments	200	(7,899)			(7,699)
Actual Budgeted Revenues & Transfers-In	201,423	4,278,755	1,853,483	220,122	6,553,784
Estimated Revenues & Transfers-In	203,000	4,251,123	1,859,198	245,000	6,558,321
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (1,577)	\$ 27,632	\$ (5,715)	\$ (24,878)	\$ (4,538)
BUDGETED REVENUES & TRANSFERS-IN OVER (UNDER) ESTIMATED BY CLASS					
Licenses and Permits	\$ 575				\$ 575
Charges for Services	(5,772)	\$ 33,861		\$ (24,878)	3,211
Monetary Settlements	(3,369)				(3,369)
Grants, Contracts, and Donations		(1,157)			(1,157)
Transfers-in	7,289	(5,072)	\$ (5,715)		(10,787)
Federal Indirect Cost Recoveries	(300)				7,289
Miscellaneous					(300)
Budgeted Revenues & Transfers-In Over (Under) Estimated	\$ (1,577)	\$ 27,632	\$ (5,715)	\$ (24,878)	\$ (4,538)

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment.
Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIARY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2018

PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT	Clerk of Court	District Court Operations	Law Library	Supreme Court Operations	Water Court	Total
Personal Services						
Salaries	\$ 363,393	\$ 17,932,686	\$ 253,777	\$ 4,666,851	\$ 1,249,527	\$ 24,466,233
Hourly Wages						21
Employee Benefits	133,695	6,615,068	105,198	1,716,381	455,221	9,025,563
Total	497,088	24,547,754	358,974	6,383,253	1,704,748	33,491,818
Operating Expenses						
Other Services	11,605	2,023,457	267	1,385,601	877	3,421,808
Supplies & Materials	16,999	237,385	171,849	957,860	11,318	1,395,411
Communications	7,424	253,576	4,665	1,195,091	34,441	1,495,197
Travel	2,794	234,181	258	192,980	5,576	435,790
Rent	11,401	55,515	3,175	714,006	214,792	998,890
Repair & Maintenance						
Other Expenses	1,210	117,296	386,140	32,338	12,858	549,841
Total	51,433	2,960,589	567,723	5,366,234	284,410	9,230,390
Equipment & Intangible Assets						
Equipment			107,216	40,654		147,870
Intangible Assets				385,270		385,270
Total			107,216	425,924		533,140
Grants						
From Federal Sources		78,076		39,917		117,993
Total		78,076		39,917		117,993
Benefits & Claims						
To Individuals		3,973,433		1,209,516		5,182,949
Total		3,973,433		1,209,516		5,182,949
Transfers-out						
Fund transfers				3,836,480		3,836,480
Total				3,836,480		3,836,480
Debt Service						
Capital Leases			460			460
Total			460			460
Total Expenditures & Transfers-Out	\$ 548,522	\$ 31,559,853	\$ 1,034,373	\$ 17,261,324	\$ 1,989,158	\$ 52,393,230
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund	\$ 548,522	\$ 25,951,413	\$ 819,446	\$ 16,421,294	\$ 627,756	\$ 44,368,430
State Special Revenue Fund		4,036,959		262,480	1,361,402	5,660,841
Federal Special Revenue Fund		1,571,481		277,746		1,849,228
Capital Projects Fund				299,804		299,804
Enterprise Fund			214,927			214,927
Total Expenditures & Transfers-Out	548,522	31,559,853	1,034,373	17,261,324	1,989,158	52,393,230
Less: Nonbudgeted Expenditures & Transfers-Out		22,249				22,249
Prior Year Expenditures & Transfers-Out Adjustments		6,541	2,486	5,409	542	14,978
Actual Budgeted Expenditures & Transfers-Out	548,522	31,531,063	1,031,888	17,255,915	1,988,616	52,356,003
Budget Authority	548,523	38,389,208	1,076,179	19,695,240	1,988,622	61,697,772
Unspent Budget Authority	\$ 1	\$ 6,858,146	\$ 44,291	\$ 2,439,325	\$ 6	\$ 9,341,769
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	\$ 1	\$ 566,502	\$ 40,449	\$ 936,208	\$ 1	\$ 1,543,162
State Special Revenue Fund		3,726,354		111,071	5	3,837,430
Federal Special Revenue Fund		2,565,289		800,012		3,365,301
Capital Projects Fund				592,034		592,034
Enterprise Fund			3,843			3,843
Unspent Budget Authority	\$ 1	\$ 6,858,146	\$ 44,291	\$ 2,439,325	\$ 6	\$ 9,341,769

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

JUDICIARY
SCHEDULE OF TOTAL EXPENDITURES & TRANSFERS-OUT
FOR THE FISCAL YEAR ENDED JUNE 30, 2017

	Clerk of Court	District Court Operations	Law Library	Supreme Court Operations	Water Court Supervision	Total
PROGRAM (ORG) EXPENDITURES & TRANSFERS-OUT						
Personal Services						
Salaries	\$ 352,261	\$ 18,195,744	\$ 254,085	\$ 4,669,451	\$ 1,381,098	\$ 24,852,639
Employee Benefits	137,710	7,895,172	121,945	1,967,572	569,712	10,692,110
Total	<u>489,971</u>	<u>26,090,916</u>	<u>376,030</u>	<u>6,637,023</u>	<u>1,950,810</u>	<u>35,544,750</u>
Operating Expenses						
Other Services	3,642	2,044,036	2,368	1,518,801	2,946	3,571,793
Supplies & Materials	7,639	283,659	185,640	958,992	13,136	1,449,067
Communications	8,288	257,176	4,194	1,073,611	42,758	1,386,027
Travel	2,047	134,457	1,105	285,097	6,393	429,099
Rent	10,742	49,060	1,122	688,534	203,253	952,711
Repair & Maintenance	75	48,704	4,909	795,323	4,014	853,025
Other Expenses	700	106,368	377,453	47,343	15,333	547,198
Total	<u>33,133</u>	<u>2,923,461</u>	<u>576,791</u>	<u>5,367,701</u>	<u>287,833</u>	<u>9,188,919</u>
Equipment & Intangible Assets						
Equipment		107,757		73,021	7,000	187,777
Intangible Assets			815,303			815,303
Total		<u>107,757</u>	<u>888,323</u>		<u>7,000</u>	<u>1,003,080</u>
Grants						
From Federal Sources				10,900		10,900
Total				<u>10,900</u>		<u>10,900</u>
Benefits & Claims						
To Individuals		4,015,251		1,651,646		5,666,897
Total		<u>4,015,251</u>		<u>1,651,646</u>		<u>5,666,897</u>
Transfers-out						
Fund transfers		435		3,604,103		3,604,538
Total		<u>435</u>		<u>3,604,103</u>		<u>3,604,538</u>
Debt Service						
Capital Leases			3,127			3,127
Total			<u>3,127</u>			<u>3,127</u>
Total Expenditures & Transfers-Out	\$ 523,104	\$ 33,030,062	\$ 1,063,706	\$ 18,159,697	\$ 2,245,643	\$ 55,022,211
EXPENDITURES & TRANSFERS-OUT BY FUND						
General Fund	\$ 523,104	\$ 28,457,306	\$ 854,917	\$ 16,832,690	\$ 949,030	\$ 47,617,046
State Special Revenue Fund		3,438,370		259,714	1,296,613	4,994,696
Federal Special Revenue Fund		1,134,387		721,090		1,855,477
Capital Projects Fund				346,203		346,203
Enterprise Fund			208,789			208,789
Total Expenditures & Transfers-Out	<u>523,104</u>	<u>33,030,062</u>	<u>1,063,706</u>	<u>18,159,697</u>	<u>2,245,643</u>	<u>55,022,211</u>
Less: Nonbudgeted Expenditures & Transfers-Out		2,212				2,212
Prior Year Expenditures & Transfers-Out Adjustments	(5,021)	<u>13,599</u>	1,809	12,775		23,162
Actual Budgeted Expenditures & Transfers-Out	528,125	33,014,252	1,061,897	18,146,921	2,245,643	54,996,838
Budget Authority	550,089	39,271,957	1,199,331	20,544,245	2,386,072	63,951,694
Unspent Budget Authority	\$ 21,964	\$ 6,257,706	\$ 137,434	\$ 2,397,323	\$ 140,429	\$ 8,954,857
UNSPENT BUDGET AUTHORITY BY FUND						
General Fund	\$ 21,115	\$ 570,532	\$ 136,926	\$ 685,624	\$ 121,365	\$ 1,535,562
State Special Revenue Fund	849	3,125,441		241,379	19,064	3,386,734
Federal Special Revenue Fund		2,561,733		578,482		3,140,215
Capital Projects Fund				891,838		891,838
Enterprise Fund			508			508
Unspent Budget Authority	\$ 21,964	\$ 6,257,706	\$ 137,434	\$ 2,397,323	\$ 140,429	\$ 8,954,857

This schedule is prepared from the Statewide Accounting, Budgeting, and Human Resources System (SABHRS) without adjustment. Additional information is provided in the notes to the financial schedules beginning on page A-11.

Judicial Branch
Notes to the Financial Schedules
For the Two Fiscal Years Ended June 30, 2018

1. Summary of Significant Accounting Policies

Basis of Accounting

The branch uses the modified accrual basis of accounting, as defined by state accounting policy, for its Governmental fund category (General, State Special Revenue, Federal Special Revenue, Capital Projects). In applying the modified accrual basis, the branch records:

- ◆ Revenues when it receives cash or when receipts are realizable, measurable, earned, and available to pay current period liabilities.
- ◆ Expenditures for valid obligations when the department incurs the related liability and it is measurable, with the exception of the cost of employees' annual and sick leave. State accounting policy requires the branch to record the cost of employees' annual and sick leave when used or paid.

The branch uses accrual basis accounting for its Proprietary (Enterprise) and Fiduciary (Agency) fund categories. Under the accrual basis, as defined by state accounting policy, the branch records revenues in the accounting period when realizable, measurable, and earned, and records expenses in the period incurred when measurable.

Expenditures and expenses may include: entire budgeted service contracts even though the branch receives the services in a subsequent fiscal year; goods ordered with a purchase order before fiscal year-end, but not received as of fiscal year-end; and equipment ordered with a purchase order before fiscal year-end.

Basis of Presentation

The financial schedule format was adopted by the Legislative Audit Committee. The financial schedules are prepared from the transactions posted to the state's accounting system without adjustment.

The branch uses the following funds:

Governmental Fund Category

- ◆ **General Fund** – to account for all financial resources except those required to be accounted for in another fund.
- ◆ **State Special Revenue Fund** – to account for proceeds of specific revenue sources other than capital projects that are legally restricted to expenditures for

specific state program purposes. Branch State Special Revenue Funds include Youth Court fees, Juvenile Delinquency Intervention Program Transfer, Child and Family Services Division Pilot Project, Judicial Education, Water Adjudication, Legal Assistance, Drug Court Fees, Court Appointed Special Advocate and Guardian ad Litem, and Judiciary private funds.

- ◆ **Federal Special Revenue Fund** – to account for activities funded from federal revenue sources. Branch Federal Special Revenue Funds include miscellaneous grants for District Courts, and various branch grants for computer licenses and computer hardware.
- ◆ **Capital Projects Fund** – to account for financial resources used for the acquisition or construction of major capital facilities, other than those financed by proprietary funds or trust funds. The branch uses this fund for Long Range Information Technology Projects.

Proprietary Fund Category

- ◆ **Enterprise Fund** – to account for operations (a) financed and operated in a manner similar to private business enterprises, where the Legislature intends that the branch finance or recover costs primarily through user charges; (b) where the Legislature has decided that periodic determination of revenues earned, expenses incurred or net income is appropriate; (c) where the activity is financed solely by a pledge of the net revenues from fees and charges of the activity; or (d) when laws or regulations require that the activities' cost of providing services, including capital costs, be recovered with fees and charges rather than with taxes or similar revenues. Branch Enterprise Funds include Lexis Proprietary Account.

Fiduciary Fund Category

- ◆ **Agency Fund** – to account for resources held by the state in a custodial capacity. Agency funds may be used on a limited basis for internal (to the State) clearing account activity but these must have a zero balance at fiscal year-end. The branch agency funds include Bad Debt Collection and District Court Youth Probation Restitution.

2. General Fund Equity Balance

The negative fund equity balance in the General Fund does not indicate overspent appropriation authority. The branch has authority to pay obligations from the statewide General Fund within its appropriation limits. The branch expends cash or other assets from the statewide fund when it pays General Fund obligations. The branch's outstanding liabilities exceed the assets it has placed in the fund, resulting in negative ending General Fund equity balances for each of the fiscal years ended June 30, 2017 and June 30, 2018.

3. Direct Entries to Fund Equity

Direct entries to fund equity in the General and State Special Revenue funds include entries generated by SABHRS to reflect the flow of resources within individual funds shared by separate agencies.

4. Supreme Court Operations

The Supreme Court Operations Program includes funding (approximately \$4.8 million in each fiscal year) for providing technology services to approximately 1,000 users within the Supreme Court, the Water Court, 56 District Courts, 7 Municipal Courts, 65 Justice Courts, and 90 City Courts. This support includes the purchase, installation, networking, and maintenance of computers and office software and the deployment, training and maintenance of court case management systems. In addition, support is provided for courtroom technology, including interactive video, court reporting and recording equipment, sound systems, and other technologies found in the District Court courtrooms.

The Supreme Court Operations Program includes General Fund expenditures (approximately \$1,247,000 in fiscal year 2017 and \$1,340,000 in fiscal year 2018) to support the operation of Drug Treatment Courts throughout Montana. Federal funds received in support of Drug Treatment Courts are included in the District Court Program of the Judicial Branch.

5. District Court Operations

The District Court Operations Program includes funding for district court judges, their staff and youth probation officers. Total HB 2 approved FTE in this program are approximately 317. Employee benefits expenditures in fiscal year 2018 are more than 16% less than in fiscal year 2017. This difference is attributable to legislation passed during the 2017 Special Session. SB 1 suspends employer contributions to the Judges' Retirement System starting with the first full pay period in January 2018 and is set to terminate June 30, 2019. SB 3, also passed in the 2017 Special Session, reduced personal services budgets and related expenditures for a two-month suspension of employer contributions for the state employee group benefits. Total reductions to fiscal year 2018 employee benefit expenditures is approximately \$1,430,000 (\$786,906 for SB 1 and \$642,940 for SB 3).

During the 2017 Regular Legislative Session, the Legislature diverted the criminal surcharge revenue in 3-1-318, MCA, from the Department of Justice to the Judicial Branch effective July 1, 2017. Revenue collected in fiscal year 2018 was \$768,252 and is recorded as charges for services in the State Special Revenue Fund. This revenue

source represents a significant increase (nearly 84%) in charges for services revenue from fiscal year 2017 to fiscal year 2018.

6. Related Party Transactions

During the period covered by the audit the Judicial Branch had a contract with a vendor who was related to a branch employee. The contract covered life coaching services provided to the 13th Adult Treatment Court, where the vendor is a direct relative of the drug court coordinator. The branch has taken steps to ensure an independent review and approval of the invoices submitted. Total payments to the related party were \$3,663 in fiscal year 2017 and \$6,200 in fiscal year 2018.

7. Financial Schedules Rounding

The financial schedules for the two fiscal years ended June 30, 2018, do not foot or cross-foot due to rounding. However, the rounding issue is immaterial and the Judicial Branch considers the schedules an accurate representation of the financial activity reported in SABHRS by the branch.

Report on Internal Control and Compliance

LEGISLATIVE AUDIT DIVISION

B-1

Angus Maciver, Legislative Auditor
Deborah F. Butler, Legal Counsel



Deputy Legislative Auditors:
Cindy Jorgenson
Joe Murray

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL SCHEDULES PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Legislative Audit Committee
of the Montana State Legislature:

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to the financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the Schedules of Changes in Fund Equity & Property Held in Trust, Schedules of Total Revenues & Transfers-In, and Schedules of Total Expenditures & Transfers-Out of the Judicial Branch for each of the fiscal years ended June 30, 2018, and 2017, and the related notes to the financial schedules, and have issued our report thereon dated February 1, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial schedules, we considered the Judicial Branch's internal control over financial reporting to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial schedules, but not for the purpose of expressing an opinion on the effectiveness of the Judicial Branch's internal control. Accordingly, we do not express an opinion on the effectiveness of the Judicial Branch's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial schedules will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal controls was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify

any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Judicial Branch's financial schedules are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial schedule amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Judicial Branch's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Judicial Branch's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Respectfully submitted,

/s/ *Cindy Jorgenson*

Cindy Jorgenson, CPA
Deputy Legislative Auditor
Helena, MT

February 1, 2019

JUDICIAL BRANCH

BRANCH RESPONSE

THE SUPREME COURT OF MONTANA

MIKE McGRATH
CHIEF JUSTICE



JUSTICE BUILDING
215 NORTH SANDERS
PO BOX 203001
HELENA, MONTANA 59620-3001
TELEPHONE (406) 444-5490
FAX (406) 444-3274

April 19, 2019

RECEIVED

APR 22 2019

LEGISLATIVE AUDIT DIV.

Angus Maciver, Legislative Auditor
Legislative Audit Division
Room 135, State Capitol
Helena, MT 59620

Re: Judicial Branch Financial-Compliance Audit for FY 2017 and FY 2018

Dear Mr. Maciver:

We have reviewed the April 2019 Financial-Compliance Audit of the Judicial Branch for the two fiscal years ending June 30, 2018. As always, we value the assistance from your office in helping us identify areas in which accounting weaknesses or gaps exist. Jen Erdahl and her staff were exceptionally professional and helpful during the audit. We appreciate the opportunity to respond.

The audit contains one recommendation for improving the Branch's fiscal operations. The audit also addresses a prior audit recommendation and a disclosure issue. The issues are addressed as follows:

Recommendation #1

We recommend the Judicial Branch comply with state law by:

- A: Appointing the network of guardianship stakeholders per § 3-1-714, MCA.
- B: Awarding grants for public guardianship programs according to § 3-1-712, MCA.

Response:

We partially concur pending action by the 2019 Montana Legislature. This response is being submitted with less than 8 days left in the legislative session, which means the Branch will have an enhanced response at the June audit committee meeting. As noted in the audit, the WINGS program was created and funded during the 2017 Legislative session, but the funding was cut during the 2017 November special session. Thus, the Judicial Branch has no ability to award grants. Further, the Branch does not have funding to provide expense reimbursement for travel for a stakeholders' committee. We anticipate this will be addressed by HB684 and will report accordingly at the June meeting.

Previous Audit Recommendation

The Auditor notes the prior audit recommendation was only partially implemented. The auditors found several instances where deposits of attorney tax payments were not made in a timely manner by the State Bar of Montana. We appreciate the Auditor identifying this issue. The Judicial Branch has amended the contract with the State Bar to require the Bar to report any late deposits so that we may address the issues immediately. We also met with State Bar leadership to discuss the issue and anticipate it will be addressed.

Disclosure Issue

The Auditor noted a disclosure issue involving an inter-entity loan. This process is governed by state accounting practices and we agree with the Auditor's decision to refer this to the Department of Administration.

We are available to answer questions or provide further information that you or the Legislative Audit Committee may require. We assure you that we will continue to do our very best to maintain proper fiscal accountability within the Judicial Branch.

Sincerely,



Mike McGrath
Chief Justice



Beth McLaughlin
Court Administrator